

# Delta variant starts to hit global economy

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There are growing indications that the uncontrolled spread of the Delta variant of the coronavirus is having a significant impact on the global economy, due to shortages in the production of computer chips.

Last week the supply chain problems afflicting a range of companies was highlighted by the announcement by Toyota, the world's largest carmaker, that it would cut its production for September by 40 percent. It will now produce 540,000 vehicles for the month as compared to the original plan of 900,000.

The company has been hit by a surge of COVID-19 cases in Vietnam and Malaysia which has contributed to an already existing computer chip shortage as well as affecting the supply of other vehicle parts. The company is also being impacted by the rise of cases in Thailand, the location of its largest manufacturing hub in Southeast Asia.

Announcing the decision, Kazunari Kumakura, the company's global procurement chief, said: "It became difficult to secure the necessary volume for several parts, which led to this sudden and large-scale production cut."

Until now Toyota has been able to sustain production because of its build-up of inventories.

Other car companies, including Ford and General Motors are also being affected by supply chain problems and have announced reductions in output. Ford said it was halting the assembly of a pick-up truck for a week and GM has announced downtime at production lines.

The Chinese car firm Geely has also warned of "uncertainty" over production because of the chip shortage and Jaguar Land Rover halved its sales forecast last month for the same reason.

The Toyota decision will hit almost all its production facilities in Japan, where 27 production lines will be disrupted. Plants in North America and China will each

cut production by 80,000 vehicles and production in Europe will be reduced by 40,000.

The shortage of chips is by no means the only problem confronting the world economy. There is growing evidence that the Chinese economy, which rebounded last year after effective measures were taken to deal with the pandemic, has started to slow.

As the *Financial Times* (FT) reported last week, the latest data coming from China "have suggested that the increase in industrial production and other key gauges has been decelerating in the latter summer months."

One of the most significant indicators of this process is the fall in commodity prices, particularly iron ore.

Last Thursday, its spot price dropped by close to 15 percent, continuing a sharp downward trend over the last three months. At start of the year the price of iron ore was \$160 per tonne. It peaked at \$230 a tonne in May. Since then, it has fallen by 44 percent and is now back down below \$160.

Some of the fall may have been due to an outbreak of the Delta variant in China. But that has now been brought under control and the fall in the iron ore price is being attributed to broader issues.

A note issued last week by Kieran Cleary of Capital Economics said: "Chinese steel exports have fallen sharply since May and the restrictions on steel mills could spark an even sharper fall in output through the remainder of this year.

"We expect the slowdown in the latest Chinese activity data for July to deepen over the rest of the year, leading to lower demand for steel and iron ore in turn."

*Sydney Morning Herald* columnist Stephen Bartholomeusz last week commented that a "near perfect storm had hit the market for iron ore" and while some of the issues would be transitory others would have lasting effects on demand for Australia's most valuable commodity.

"At a macro level China's economy has been

slowing amid a renewed effect by authorities to reduce leverage, particularly in the over-indebted property and construction sectors where some of the country's biggest companies are teetering. Those sectors are the biggest sources of the demand for steel."

But, he continued, the slowdown was broadly-based with recent data showing "industrial production, retail sales, investment and even employment" falling short of expectations.

Economic slowdown in one part of the world and especially China, the world's second largest economy, is soon transmitted to the rest of the globe. In this case, the fall in industrial production and the demand for iron ore will rapidly hit the budget of the Australian government, which is highly dependent on tax revenue from iron ore sales.

Iron ore prices are not the only indication of a global slowdown. The price of copper, considered to be the world's most important industrial metal and an indicator of the health of the global economy, fell by 2 percent last week to reach a five-month low.

The optimistic forecasts for growth in the US economy are also being revised down on the back of rising Delta infections and falling retail sales and consumer confidence.

Last week, Goldman Sachs sharply lowered its forecast for US growth in the third quarter. It now predicts a 5.5 percent expansion in gross domestic product between July and September compared to its earlier forecast of 9 percent.

"The impact of the Delta variant on growth and inflation is proving to be somewhat larger than we expected," the bank's economists said.

According to calculations by Citigroup, economists' predictions for US economic expansion have been overstated by the largest amount since the start of the pandemic.

The worsening economic outlook is leading to jitters in financial markets with the S&P 500 index having its largest fall in a month last week. It had earlier reached a record high, doubling its level since the lows it recorded in March 2020.

The financial oligarchs are looking to the central bank again to step in if Wall Street starts to fall. They have already pocketed hundreds of billions of dollars as a result of the injection of more than \$4 trillion into the financial system by the Fed since the spring of last

year.

Their eyes will be turned to the conclave of central bankers to be held online at the end of this week, following indications in the minutes of its latest Fed meeting that it may consider winding back its asset purchases.

"COVID risks are re-emerging as a really important downside risk," the senior US economist at Barclays bank told the FT. "It's back on the [Fed's] radar and the wording in the minutes gives them the freedom to put a hold on tapering."



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